

**Industry Royalty Reporting Questions
And Minerals Management Service Responses**
10/01

TABLE OF CONTENTS

| | |
|--|-----------|
| 2014 DATA ELEMENTS AND REPORTING REQUIREMENTS | 2 |
| REPORT MONTH | 2 |
| FEDERAL/INDIAN REPORT INDICATOR | 2 |
| PAYOR ASSIGNED DOCUMENT NUMBER | 2 |
| API WELL NUMBER | 3 |
| LEASE NUMBER..... | 3 |
| AGREEMENT NUMBER | 4 |
| PRODUCT CODE | 5 |
| SALES TYPE CODE..... | 6 |
| SALES MONTH..... | 11 |
| TRANSACTION CODE..... | 12 |
| ADJUSTMENT REASON CODE..... | 15 |
| SALES VOLUME | 18 |
| GAS MMBTU | 18 |
| TRANSPORTATION AND PROCESSING ALLOWANCE DEDUCTIONS | 19 |
| ROYALTY VALUE LESS ALLOWANCES..... | 19 |
| PAYMENT INFORMATION..... | 20 |
| ELECTRONIC REPORTING | 21 |
| GENERAL QUESTIONS | 25 |
| REPORTER HANDBOOK | 26 |
| HISTORICAL DATA | 27 |
| RECORD LAYOUT AND FILE SPECIFICATIONS | 29 |
| ROYALTY-IN-KIND (RIK) | 30 |
| ROYALTY RATE | 31 |
| SYSTEM TESTING | 32 |
| VALUATION | 32 |

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MMS has prepared this document to respond to industry questions in regard to reporting on the revised Form MMS-2014 which will be implemented October 1, 2001. It will be periodically updated as new questions are received and as responses become available.

2014 Data Elements and Reporting Requirements

Report Month

Where do I report the Report Month on the new Form MMS-2014?

Response: There is no longer a field for Report Month. However, the MRM financial system will calculate the report month by the receipt date of your Form MMS-2014. When our system calculates the report month, it will include documents received through the 10th of the month as the current processing month. For example, the due date is July 31 and your report is received August 6; the report month will be 072001. This is how the Report Month will be determined; it has nothing to do with how interest is calculated. Interest due is calculated by the receipt date of your payment not your report, with the exception of estimates.

Federal/Indian Report Indicator

How does MMS propose handling Federal and Indian portions within a single lease and unit, e.g. 002-029657-0 is split between CIRI and Federal tracts. We suggest using the 11th digit of the lease number to distinguish between the two tracts.

Response: CIRI leases are jointly owned by CIRI and the Federal Government. Report CIRI and Federal portions of the lease to MMS on separate Forms MMS-2014. Use Payment Method (PM) code 2 to report the CIRI portion, and enter I in field 3. Use PM 1 or 3 to report the Federal share, and enter F in field 3.

Payor Assigned Document Number

Will we be required to override our Payor Assigned Document Number with an MMS GBIL or other invoice number?

Response: We do not anticipate a requirement to override your Payor Assigned Document (PAD) Number with an MMS GBIL or other invoice number. However, our Compliance and Asset Management groups are currently defining their processes. They may determine specific scenarios where they would request that you report a defined PAD number. For example, as part of our compliance tracking processes we may require the use of the Reference Result ID No. from our Compliance Tracking System (CTS) in the PAD field. The purpose is to connect the royalties with the audit case on CTS, thereby ensuring proper monitoring and closure.

API Well Number

Are the CIRI or Muskogee tribes asking for reporting by API well number? These are the only two tribal agencies we currently have. Is the MMS planning to require reporting by API well number on any lease that we currently pay royalties on? Our current thought is to add the field to our manual override process but not incorporate the field in any automated conversion processing. However, if the MMS will be requiring API well number reporting with the first reporting month under the new system then we may wish to reexamine our decision.

Response: No. At this time, there are no requirements by any tribe for API Well level reporting. However, we do encourage you to include the API Well number in your new system modifications to prepare for future requirements. We cannot guarantee that the API Well number will not be required, by one or more Tribes, after October 2001.

When will the MMS post on their web site the Indian lands and offshore deep water wells under royalty relief that require API well level reporting?

Response: Currently there are no properties that require API Well level reporting. Please see response to Question above.

Will MMS post the API well numbers with the appropriate Lease/Agreement on the Internet?

Response: No. This is not practical due to numerous well changes initiated by company drilling, plugging, and unitization/communitization actions that occur each month.

Lease Number

When will the MRM provide industry with the listing of MRM lease numbers and agreement numbers. Also will MRM provide each payor with a cross-reference of their Accounting Identification (AID) Numbers to the MRM Lease/ Agreement Number.

Response: A listing that cross-references the BLM/OMM lease and agreement numbers to the associated MRM converted lease and agreement numbers is available on our website at: <http://www.mrm.mms.gov/ReportingServices/Forms/Revised.htm>.

Industry can also access a cross-reference table of MRM AID numbers to the associated MRM agreement number at this website.

MRM will not provide cross-reference tables at a payor level.

Why does MMS have 11 digits for the lease number?

Response: We have defined this data element as 11 digits to accommodate future reporting scenarios such as a change in the BLM/BIA/OMM lease numbering methodology. When reporting a lease that has only 10 digits, the 11th digit should be a blank or space.

Where royalty decimals (royalty rate) are different, can industry use the 11th digit in the lease number to differentiate?

Response: No. MRM will use the 11th digit to accommodate future reporting scenarios. Also, the lease number must match the lease number stored in our database. Each royalty rate must be reported on a separate line. Unless, you report a sliding/step scale lease; then, the different royalty rates within the sliding scale rate should be rolled up and reported on one line.

Agreement Number

When reporting royalties based on production allocated from an agreement, do I need to report both the lease and agreement number?

Response: Yes. The agreement number should be reported in block 9 of the new Form MMS-2014 for those leases that have royalty-bearing production allocated from an agreement. In addition, report the lease number in block 7.

How should the agreement number be formatted?

Response: The agreement number consists of three parts:

Prefix = 3 characters, left justified
Serial No. = 6 characters, right justified
Suffix = 2 characters, left justified

Following are some examples of the required format for agreement numbers.

| <u>Agency Agreement #</u> | <u>MMS Converted Agreement #</u> |
|---------------------------|----------------------------------|
| WYW192003B | W(sp)(sp)192003B(sp) |
| NMNM34567A | NM(sp)(sp)34567A(sp) |
| NMNM92323 | NM(sp)(sp)92323(sp)(sp) |
| 140800016793A | 891006793A(sp) |
| NCR54 | 6910000540(sp) |
| CO050A2085C | 65985C1040(sp) |
| UTU60786A | U(sp)(sp)(sp)60786A(sp) |

Note: The agreement number must be reported in upper case.

When will the MMS Agreement numbers be available?

Response: A cross reference table of agency assigned (BLM/OMM) agreement numbers to the associated MRM agreement number can be found on our website at:

<http://www.mrm.mms.gov/ReportingServices/Forms/Revised.htm>

Is the “agreement number” currently what we see on the AFS/PAAS letters?

Response: Agreement numbers are shown on the AFS/PAAS exceptions, depending on the source of the exception. The Bureau of Land Management (BLM) for onshore and Indian lands, or the Offshore Minerals Management (OMM) for offshore lands approves agreements. Each agreement is assigned a unique identifying number.

MMS converts most of the assigned BLM/OMM agreement numbers to a slightly different number for entry into our database. This MRM converted agreement number is what you will report on the Form MMS-2014. We posted a listing of the BLM/OMM and the associated MRM converted agreement numbers on our web site at:
<http://www.mrm.mms.gov/ReportingServices/Form/Revised.htm>

If a lease participates in more than one agreement, each agreement number must be reported on a separate report line. Does this also include overlapping agreements?

Response: When we use the term “overlapping” agreement, we are usually referring to a communitization agreement (CA) that is wholly or partially contained within a unit participating area (PA).

If royalties attributable to a CA are wholly contained within a PA, report on the allocation schedule for the PA. Therefore, the lines you report on the Form MMS-2014 are for the appropriate PA lease numbers and unit PA number.

If the CA is only partially contained within the PA, report only the royalties attributable to the portion within the PA on the appropriate PA lease numbers and unit PA number. Report the royalties attributable to the portion outside of the PA on the appropriate CA lease numbers and CA number.

Product Code

What exactly is the definition for inlet scrubber? Is retrograde to be reported under product code “05” as before? What are the differences between product codes “05” & “06”?

Response: The basic difference between the two products is the point of collection.

Retrograde, or drip that is collected on the pipeline or at a separation facility (usually not owned or operated by the plant operator) that is located prior to a gas plant, should be reported as Product Code 05. Normally, producers receive an allocation report from the operator of the separation facility separate from any allocation statement they might receive from the operator of the gas plant. This should be limited to liquids recovered in a system approved by OMM as retrograde systems.

Condensate, recovered at the inlet to a gas plant, should be reported as Product Code 06. Generally, there is a separator at the inlet to the plant that is owned by the plant and reported on the plant statement. The retrograde is collected at a different point and not included on the plant statement.

What is the unit of measure for product codes 05 and 06?

Response: The unit of measure for Product Codes 05 and 06 is barrels.

Can MRM change the wording for PC 05 to read just "drip" vs. "drip or scrubber?"

Response: No. MRM cannot change the description of a code without creating a new code.

Sales Type Code

What is the definition of the Percentage of Proceeds “POP” sales type codes?

Response: MMS defines a Percentage of Proceeds (POP) contract as: A contract for the sales of gas prior to processing in which the value of the wet, unprocessed gas is based on a percentage of the proceeds the purchaser receives for the sale of residue gas and gas plant products attributable to processing the lessee’s gas. See the *Oil and Gas Payor Handbook – Volume III*, page 4-50 for additional information on Percentage of Proceeds Contracts.

Use APOP for an arms-length POP. Use NPOP for a non-arms’s-length POP. However, for gas production sold under a POP contract and produced from Indian leases located in an index zone, payors must use a Sales Type Code of OINX. Payors should use OINX until MMS establishes a new Sales Type Code of INDX.

When will I report Sales Type Code OINX?

Response: Use OINX to report Federal lease oil production that is valued based on index. Report OINX to report Indian lease gas production that is valued based on index regardless of contract type (percentage of proceeds, non-arm’s-length, etc.)

Can the oil index sales type code "OINX" be changed to "INDX"? This will allow it to be used for oil and gas.

Response: We cannot modify our system at this time to change from OINX to INDX.

MMS anticipates at least a year before implementing STC INDX. MMS will not require adjustments to correct the STC from OINX to INDX.

If Sales Type Code is APOP then Product Code must be 04?

Response: Yes. Report Product Code 04 if the Sales Type Code is APOP. Please see the *Oil and Gas Payor Handbook, Volume III*, beginning on page 4-50 for information on percentage of proceeds contracts.

When would industry ever report a NPOP sales type code?

Response: In situations where gas is sold under a non-arm's-length percentage of proceeds contract.

If Sales Type Code is NPOP then Product Code must be 03, 06, 07, 09, 17, or 19?

Response: Yes. Please see the *Oil and Gas Payor Handbook, Volume III*, beginning on page 4-50 for information on percentage of proceeds contracts.

Many companies report for themselves as well as other working interest owners.

Example: Company A sells their production to an affiliate (non-arm's-length) and the working interest owner(s) has asked Company A to sell their share to the affiliate also (arm's-length). Today Company A reports both the sale to its affiliate and the working interest owner's sale under one selling arrangement for spot sales. Under the new reporting requirements, will Company A have to report two separate lines. Company A realizes that would be the technically correct way to report. However, if they have to report two lines many companies will stop reporting/selling for the small working interest owners and this would be a problem for the smaller companies in terms of getting reasonable prices for small volumes. Can they report both sales under NAL sales type code?

Response: Yes. The determining factor in whether you report a separate Sales Type Code is the disposition of the production. If an operator/designee markets production on behalf of a working interest owner, then the operator/designee would value that production based on how the operator/designee disposes of it (AL, NAL, pooled, etc.) and would report only one Sales Type Code.

On the other hand, if the working interest owner markets and sells its own production, but chooses not to pay its own royalties, the operator/designee would value the production based on how the working interest owner disposes of it (AL, NAL, pooled, etc.). In this case, the operator/designee would have to report two Sales Type Codes, one for its sales and one for the working interest owner's sales.

Some sample scenarios are shown below:

| Scenario | Scenario | Appropriate Sales Type Code | Rationale |
|----------|--|-----------------------------|--|
| 1 | Owner A markets Owner B's production on behalf of Owner B. Owner A reports and pays Owner B's royalty. Owner A and its purchaser are affiliated. | NARM | Owner A would value Owner B's production based on how Owner A disposes it. Owner A is affiliated with the purchaser; therefore MMS would consider the sale of Owner B's production non-arm's-length. |

| | | | |
|---|--|----------------------------------|--|
| 2 | Owner B markets and sells its own production. Owner A reports and pays Owner B's royalty. Owner B and its purchaser are NOT affiliated. | ARMS | Owner A would value Owner B's production based on how Owner B disposes it. Owner B is NOT affiliated with the purchaser; therefore MMS would consider the sale of Owner B's production arm's-length. |
| 4 | Owner A markets its production to its affiliate. Owner B markets its production to a non-affiliated party. Owner A reports and pays Owner B's royalty. | Owner A = NARM Owner B = ARMS | Owner A would value its production based on how they dispose of it. Owner A is affiliated with its purchaser; therefore Owner A reports as non-arm's-length. Owner B is NOT affiliated with the purchaser; therefore assuming there is opposing economic interests, MMS would consider the sale of Owner B's production arm's-length. Owner A would be required to report the ARMS and NARM on separate lines on the 2014. |

How does the MMS define Arm's Length and Non-Arm's Length sales type codes? Should the code show the relationship of the parties to the contract or should the code refer to the nature of the contract itself? We (industry) had planned to use the parties to the contract as the easiest method to define these codes. Thus a buy/sell or exchange contract between Chevron and Exxon, for example, would have been reported as an arm's length sale. It was pointed out that some buy/sell or exchange contracts might be considered non arm's length even where the parties to the contract were arm's length.

Response: Contracts can only be at arm's-length under our valuation rules if the parties (1) are not affiliated (that is, they don't exhibit control over one another) and (2) have opposing economic interests regarding the contract. Thus, the answer to the question "Should the code show the relationship of the parties to the contract or should the code refer to the nature of the contract itself?" is "both". To use the example cited, it's indeed possible that an exchange between Chevron and Exxon might be considered non-arm's-length. This could happen if, for example, even though one doesn't exert control over the other, they had some separate dealings that influenced the terms of the exchange--meaning they didn't have opposing economic interests regarding the exchange contract.

The punch line is that just because two entities are separate doesn't necessarily mean the transaction is at arm's-length. Thus, the transaction itself should determine whether the Sales Type Code is arm's-length or non-arm's-length. (Note: under the new Federal oil valuation rule, exchange agreements don't qualify as sales--see the "Sale" definition at 30 CFR 206.101.)

If a payor has any questions about whether their sales contract is arm's-length or non-arm's-length, they should request a valuation determination from MMS.

Under the Federal oil valuation rule, if a company has an arm's-length affiliate resale or an arm's-length sale after one or more arm's-length exchanges for 3 months and then sells their production in a different way where there is no affiliate or exchange, does the 2-year election stop?

Response: Yes. On a property basis. The new Federal oil valuation rule states that if you sell or transfer your oil to an affiliate and that affiliate sells the oil under an arm's-length contract, you may elect to use either index or the affiliate's arm's-length sale to value your production. You must make the same election for all of your production from the same unit, communitization agreement, or lease. So, if there is no longer an affiliate resale, the 2-year period stops for all of your production from that property. The same holds true for the 2-year election for arm's-length exchange agreements.

What is the definition of the Sales Type Code "Pool"?

Response: Some companies aggregate their volumes in pools and then sell or exchange their product under multiple contracts. To comply with the new Sales Type Code in a pooling situation, industry would determine value by computing a weighted average of the prices for all arm's-length and non-arm's-length sales at all downstream sales outlets.

What if a company doesn't sell their production during the month it is produced, but instead puts it into storage? What if the gas goes into storage after it is sold into a POOL?

Response: Royalties are due 1 month following the month that production is sold or removed from the lease. So, if production is removed from the lease but not sold, it should be reported as Sales Type Code (STC) NARM. If gas is first sold into a pool and then stored, it would be reported using STC POOL.

Will MRM require companies to break out NGL's (as one product) into arm's-length and non-arm's-length Sale Type Codes? What sales type code should industry use to report NGLs? POOL?

Response: No. However, the new system will require the Sales Type Code (STC) be reported for all TC 01 lines. Therefore, until the system can be modified to not expect a STC for Product Code 07, we suggest that industry use STC POOL even though we understand that NGL's are not sold into a pool.

Is a new sales type code going to be added for the oil valuation settlements that are occurring?

Response: Sales Type Codes (STC) will be assigned as future valuation agreements are established. As we reach these agreements, we will communicate the STC to the company involved. These STC will be numbered AG01, AG02, etc.

Payor A has a specific settlement with MMS to prospectively value their production in a certain way. That way does not fit with any of the available Sales Type Codes. What should they use?

Response: See answer to question above.

When making adjustments to periods prior to October 1, 2001, will companies have to adjust the dummy Sales Type Code to the correct Sales Type Code

Response: When making adjustments for sales months prior to October 2001, (regardless of the reason for the adjustment) you do not have to include correction of the Sales Type Code (STC) from the dummy STC (Z999 or Z700) to a current valid STC.

Will MRM allow companies to report a dummy Sales Type Code for some time period after October 1, 2001, and NOT require them to retroactively correct it?

Response: MRM will allow companies to report a dummy Sales Type Code (STC) for up to 6 months after conversion - through March 31, 2002. However, we will require corrections as identified below:

Onshore Leases - MRM must have the STC correctly populated from October 2001 sales month forward, either by MMS or by the company. Who makes the retroactive correction depends on whether there is more than one STC for a lease.

1. If there is only one STC for a lease, then the company should submit a letter to MRM, Onshore Compliance and Asset Management, providing the correct STC. MRM will populate the STC for that company's leases back to the October 2001 sales month.
2. If there is more than one STC for a lease, then the company must retroactively correct their reporting back to the October 2001 sales month. MRM would have no way of knowing what volume to assign to what STC if there is more than one STC for a lease.

Offshore leases - reporters do not need to correct the STC retroactive to the October 2001 sales month.

What about adjusting Sales Type code for periods after October 1, 2001, when the only thing wrong is the Sales Type Code:

Response:

Onshore Leases – As of the October 2001 sales month, if the company discovers that they incorrectly reported a Sales Type Code (STC), they should submit an adjustment with the correct STC. If a company's system prohibits correction on only the STC, then we request that the company notify MMS, Onshore Compliance and Asset Management, of the correct STC for the applicable sales months and lease.

However, if during the course of an audit MMS finds that a company has incorrectly reported the STC and nothing else is wrong with the line, the company may request that no adjustment be made. Requests from companies not to adjust the STC for October 2001 sales months forward will be handled case-by-case, much like how MMS handles rolled-up reporting requests today.

Offshore Leases - no retroactive correction is necessary.

Is it possible to stage the implementation of the sales type code?

Response: MRM's Compliance and Asset Management groups are willing to work with companies individually to assist them in correctly reporting their Sales Type Codes as soon as possible. For onshore leases, any staged implementation will focus first on Indian leases.

Why is Sales Type Code (STC) required on TCs 11 and 15 and 37-42? These have nothing to do with sales?

Response: Upon further review and in the spirit of reducing the administrative burden of industry, we are not requiring that a Sales Type Code (STC) be reported in conjunction with the following Transaction Codes (TC):

| | | |
|-------|-------|-------|
| TC 06 | TC 31 | TC 39 |
| TC 10 | TC 37 | TC 40 |
| TC 13 | TC 38 | TC 42 |

If you choose to report a STC for any of these transactions, please follow the guidance in the *Minerals Revenue Reporter Handbook* for the specific Transaction Code.

With respect to TC 11 and TC 15 (Transportation and Processing Allowances), you should report transportation and processing allowances on the same line as the TC 01 line. However, MMS's new financial system will allow these transactions to be reported as separate lines on the Form MMS-2014. In this case, the payor will report the same STC as on the associated royalty due line. We anticipate eliminating separate lines of reporting for TC 11 and 15 at some point in the future.

If a Company reports a STC for a Transaction Code that does not require a STC to be reported, will the line reject?

Response: No.

How will Industry determine the correct Sales Type Code when every month the mixture of contracts changes? Does MRM expect them to do resource intense research every month to determine the mixture?

Response: Gas that is sold into a pool that has a mixture of arm's-length and non-arm's-length contracts, should be reported using Sale Type Code POOL.

Sales Month

If Sales Date should be greater than Report Date minus 73 months then must have an approved refund request? (RSFA requirement. File for refund of RSFA balances over 6 years old.)

Response: Correct.

Sales Date must be greater than Report Date minus 85 months? (RSFA requirement. Write off all RSFA balances over 7 years old.)

Response: Correct.

If Sales Date is less than 07/1996 then Royalty Value Less Allowances should be greater than zero. (Pre-RSFA requirement. Verify that lease payments made after 07/1996 are greater than or equal to the adjustment.)

Response: Correct.

Transaction Code

If Transaction Code is 02, 03, 04, 05, 12, 13, 14, 16, 17, 18, 19, 25, 50, or 51 then the Sales Volume, Sales Value, Transportation Allowance Deduction and Processing Allowance Deduction must be zero?

Response: Yes. With the exception of Transaction Codes (TC) 18 and 19 (they both require a Sales Volume). Add TC 11 and 15.

If Transaction Code is 02, 03, 04, 05, 16, 17, 18, 19, or 25 then the API Well Number, MMS Agreement Number, Product Code and Sales Type Codes must be blank?

Response: Yes. Add Transaction Codes 50, 51, and 52.

When would a TC 06 be required to report RIK deliveries with no cash payment?

Response: Strategic Petroleum Reserve (SPR) or future RIK scenario.

What is the distinction and usage between Transactions 06 & 08?

Response: In the past, Transaction Code (TC) 06 was used to report royalties related to the Small Refiner Program and the Strategic Petroleum Reserve (SPR). As of December 2000, TC 06 is no longer used to report original royalties due under these programs (with the exception of some Navajo Nation leases). Another SPR or other future RIK scenarios may require the use of TC 06.

TC 08 is currently not used to report RIK; however, future RIK scenarios may require reporting of TC 08.

If Transaction Code is 06 (or 08) then Payment Method must be 4? (TC 08 is yet to be defined.)

Response: Correct.

If Royalty Value Less Allowances is less than zero and if Adjustment Reason Code is blank then Transaction code must be 12, 25, or 51?

Response: Correct. Add Transaction Codes 11, 15, 22, and 42.

Under what circumstances do you use Transaction 11 for original reporting post 10/2001?

Response: As of October 1, 2001, companies must report transportation deductions for in-value leases on the TC 01 royalty due line. MRM will work with companies to phase in this correct reporting of allowances.

When an operator is required to deliver RIK production to a delivery point away from the lease, they are allowed to deduct their actual, reasonable costs of moving this production from the lease to the delivery point. They would report these allowable transportation costs on a separate line of reporting using a Transaction Code 11.

On TC 11 (transportation allowance) lines will industry have the same dollar amount in the Transportation Deduction field as the Royalty Value less Allowances field?

Response: Yes.

Are TC 11's to be used only for RIK?

Response: No. TC 11 can also be used for in-value leases. However, as of October 1, 2001, companies are encouraged to report transportation deductions for in-value leases on the Transaction Code 01 royalty due line. We anticipate eliminating (for in-value leases) separate lines of reporting for TC 11 and 15 at some point in the future. MRM will work with companies to phase in this correct reporting of allowances.

If Transaction Code is 11 or 15 then Sales Volume, Gas MMBtu Sales Value and Royalty Value Prior to Allowances must be zero?

Response: Correct

We infer from MMS's comment to blocks 15 and 17 that if the record is allowance only then the sales volume and value should be zero. Is this correct?

Response: This question refers to Enclosure 2 of our Dear Reporter letter dated September 19, 2000. The answer is yes. Reporters should not report a Sales Volume, Gas MMBtu, or Sales Value if reporting only an allowance. Please see the Data element by Transaction Code table published on our website at:

<http://www.mrm.mms.gov/ReportingServices/Forms/Revised.htm>

If Royalty Value Prior to Allowances is zero, then Transaction Code must be 11, 15, 39, or 60?

Response: Royalty Value Prior to Allowances is an optional field.

Will industry report TC 20 to report “no sales”?

Response: Transaction Code 20 is a valid code for solid mineral leases only. If any of your oil and gas leases have “no sales,” do not include these leases on your Form MMS-2014. If you do, the lines will reject and MMS will need to delete them. MMS does not have the manpower to correct these types of monthly errors. If all of your oil and gas leases have “no sales,” do not send the Form MMS-2014. However, you will report “no sales” as shut-in on your production reports (OGOR).

What is the difference between TC 31 and future valuation agreement codes anticipated to be used by CAM?

Response: Transaction Code 31 covers royalties due on gas contract settlement payments. Normally, the settlements reported under this transaction are between lessees and purchasers.

Future valuation settlement agreements between MMS and a payor will be reported as a unique future settlement Sales Type Code identified by MMS.

If Royalty Value Less Allowances equals zero then Transaction Code must be 39 (or 60)? (TC 60 is yet to be defined.)

Response: Transaction Code (TC) 39 requires a “Royalty Value Less Allowances (RVLA)” if allowances are reported. If no allowance is taken, then “RVLA” will be blank. Requirements for TC 60 are not defined. “RVLA” would also be blank for TC 41.

TC 41 - why is there no royalty value? Some companies will have to pay royalties even though qualified for royalty relief so what TC are they to use if TC 41 has no royalty value? What payment method code is used on TC 41? Is API well number required for TC 41?

Response: Transaction Code 41 is used to report royalty free volumes on offshore leases that qualify for royalty relief under the Outer Continental Shelf Deep Water Royalty Relief Act (Act) of 1995. While a lease qualifies for royalty relief under the Act, no royalty is due, therefore there is no Royalty Value reported on TC 41. When a lease no longer qualifies for royalty relief under the Act, royalties are reported using TC 01.

The Payment Method used should be the same as that used on other Transaction Code (TC) 01 lines on the same document. At this time, the API well number is not a required field for TC 41. However, at a future date, it may become a required field.

Transaction Code “52” is the code to be used for recoupment of minimum royalty paid in advance. What Navajo leases apply to this transaction code?

Response: The Navajo leases listed below are subject to Minimum Royalty Paid in Advance:

525-007467-0

525-007469-0
525-007470-0
525-007471-0
525-007472-0
525-007473-0
525-008376-0
525-008377-0

Adjustment Reason Code

Why did MMS delete the ARCs for price, royalty rate and volume? Did MMS replace them with something other ARC(s)?

Response: At the request of industry, we consolidated the Adjustment Reason Codes (ARC) wherever possible. Many of the current ARC are used to identify reporting in response to specific MMS exception processing routines. Many of these individual routines will be consolidated within our new compliance function and any resulting MMS initiated compliance adjustments should be reported using ARC 17.

Unless otherwise instructed by MRM, industry can report volume, value, and royalty rate adjustments using ARC 10 - Adjustment.

Most of the adjustment reason codes we commonly use were deleted. Should we make the default adjustment reason code = 10 or is the plan to leave this field blank unless the adjustment meets the criteria for an adjustment reason code?

Response: Industry must report the Adjustment Reason Code (ARC) that properly identifies the reason for the adjustment. All adjustment lines require an ARC. Our Dear Reporter letter dated September 19, 2000, stated that ARC 10 would only be used for adjustments that do not require another specific ARC. Example: If industry adjusts the value and was not requested by MRM to do so nor instructed by MRM to report the adjustment using a specific ARC, then the adjustment lines would be reported using ARC 10.

Sometimes, as part of the Royalty Error Correction process, Industry is instructed to report a reversing line with an adjustment reason code 27, to ensure that the reversing line rejects. Since adjustment reason code 27 will not be valid as of October 2001, and cannot be used to report electronically, what will MMS tell Industry to do to get the reversing line to reject?

Response: MMS will request industry to use a valid Adjustment Reason Code (ARC), yet invalid for the transaction code to be reversed. For instance, ARC 32 is valid only when used with Transaction Code (TC) 03. Therefore, if MMS requests industry to reverse a line with a transaction code other than 03 and with the intention of the line to reject our system, industry will report ARC 32. Conversely, if industry reverses TC 03 with the intention of the line to reject our system, industry will report ARC 10.

When we make adjustments to records reported prior to the new system, what should be entered in the API Well Number field? Can we leave it blank or null for both the reversing and new records?

Response: Currently there are no properties that require API well level reporting. Therefore, leave this field blank when adjusting lines reported prior to implementation of the new system.

What should industry report in place of the Selling Arrangement Code on a prior period adjustment (PPA) backout line? The fact that the MMS says they are being deleted implies that these codes would not be available for future use at all. Are they intending to give us a new 'bogus' code for the backout lines similar to the use of a 'Z999' Sales type code for historical data?)

Response: A valid Sales Type Code (STC) is required when reporting Transaction Codes 01, 11, 12, 14, 15, 41, 53, and 54. This is true regardless of the report period/sales month involved.

Sales months prior to October 2001:

For backout lines for sales months prior to October 2001, report Selling Arrangements Codes 770-779 (POP contracts) as STC Z700. Report all other Selling Arrangements Codes as STC Z999, except for Selling Arrangements 000, which should be reported with blanks or spaces in the STC field.

For re-entry lines for sales months prior to October 2001, report the same STC as on the PPA backout line.

Sales months October 2001 forward:

Onshore Leases – if a company discovers that they incorrectly reported a STC for sales months October 2001 forward, they should submit an adjustment with the correct STC. If a company's system prohibits correction on only the STC, then we request that the company notify MMS, Onshore Compliance and Asset Management, of the correct STC for the applicable sales months and lease.

However, if during the course of an audit, MMS finds that a company has incorrectly reported the STC and nothing else is wrong with the line, the company may request that no adjustment be made. Requests from companies not to adjust the STC for sales months October 2001 forward, will be handled case-by-case much like how MMS handles rolled-up reporting requests today.

Offshore Leases - no retroactive correction is necessary.

When we make adjustments to records reported prior to the new system what should be entered in the Sales Type Code field? Can we leave it blank or null for both the reversing and new records?

Response:

Sales months prior to October 2001: not required to include correction of the Sales Type Code (STC) from the “dummy” to the correct STC.

Sales months October 2001 forward:

Onshore Leases - if the company discovers that they incorrectly reported a STC for sales months October 2001 forward, they should submit an adjustment with the correct STC. If a company’s system prohibits correction on only the STC, then we request that the company notify MMS, Onshore Compliance, of the correct STC for the applicable sales months and lease.

However, if during the course of an audit, MMS finds that a company has incorrectly reported the STC and nothing else is wrong with the line, the company may request that no adjustment be made. Requests from companies not to adjust the STC for sales months October 2001 forward, will be handled case-by-case much like how MMS handles rolled-up reporting requests today.

Offshore Leases - no retroactive correction is necessary.

When we make adjustments to records reported prior to the new system and transactions were originally reported on more than one selling arrangement, can we combine records originally reported with different selling arrangements into one reversal record?

Response:

Federal Leases: Yes. As long as the reported lease number, revenue source code, product code, sales month, transaction code, and payment method are identical on the original lines. However, do not combine lines for POP contracts (Z700) with non-pop contracts (Z999).

Indian Leases: No. You must adjust (reverse) each line separately.

After conversion to the new form - what if the gas MMBtu on the reversing line doesn't match the original line? What data elements have to match when reversing and rebooking lines?

Response: The MRM database does not compare the reversing line entries to the original line entries for either the new or old Form MMS-2014. Our system edits the transaction code to determine which fields on the line need to be completed. However, our Compliance and Asset Management groups will perform downstream edits for proper reporting of adjustments, royalty rate, pricing, etc. For proper reporting, the reversing line must match the original line and both lines must include an adjustment reason code.

When we make adjustments to records reported prior to the new system what should be entered in the Gas MMBtu Sales Volume field? Can we leave it blank or null for both the reversing and new records?

Response: No. This information cannot be left blank. Gas MMBtu is required when reporting any line with a Product Code of 03, 04, 12, 15, 16, or 39. Populate the Gas MMBtu field using the formula: Sales Quantity X Quality Measurement = Gas MMBtu.

Ex: $500\text{MCF} \times 1.100 \text{ MMBtu/ Mcf} = 550 \text{ MMBtu}$. We expect reporters to determine and report the correct Gas MMBtu information on all lines.

How does MMS expect industry to report adjustments for estimated to actual allowance amounts? We anticipate that MRM would want us to reverse the entire record and rebook a new line with the Allowance Deduction and Royalty Value Less allowance changed. The sales fields and Royalty Value Prior to Allowances would be filled in but unchanged except for sign.

Response: Yes. We prefer this option as explained below.

When we make adjustments to records reported prior to the new system with transportation and processing allowances, should the reversal combine all three original records?

Response: When making adjustments, we see at least two possible options:

Option One: You can reverse all three original lines (Royalty Due, Transaction Code (TC) 01; Transportation Allowance, TC 11; and Processing Allowance, TC 15) and report one new combined TC 01 line with the corrected data. **MRM prefers this option.**

Option Two: You can continue to retain all three lines separately in your system and reverse only the applicable TC 01, 11, or 15 line. The problem we see with this second option is that it forces you to continue to maintain three lines of data rather than only one.

Sales Volume

If Sales Volume is not zero then Sales Value must not be zero?

Response: Correct. Except Transaction Code (TC) 18 and TC 19 Gas Storage Agreements (Injection and Withdrawal Fee) both require Sales Volume but no Sales Value.

Gas MMBtu

How is the Gas MMBtu calculated?

Gas MMBtu is Sales Volume multiplied by the gas Btu heating value at a standard pressure base of 14.73 psia, a standard temperature base of 60 degrees Fahrenheit, and same degree of water saturation.

Ex: $500 \text{ Mcf} \times 1.100 \text{ MMBtu/Mcf} = 550 \text{ MMBtu}$ ($500 \times 1.100 = 550$)

If Gas MMBtu is not zero, then Product Code must be 03, 04, 12, 15, or 16?

Response: Correct. However Product Code 39 should also be included.

If Product Code is 03, 04, 12, 15, or 16 and if Sales Volume is not zero then Gas MMBtu must not be zero?

Response: Correct. However Product Code 39 should also be included.

New MMBtu volumes (100% amount) and clarify if this is the MMBtu as measured at the wellhead (and then would then tie to the Btu factor and associated MMBtu computed volume on the MMS OGOR-B or is this the actual “sales” (pipeline) MMBtu associated with the revenue valuation of the associated gas transaction?

Response: For reporting on Form MMS-2014, you are responsible for paying royalties on the quantity and quality as measured at the point of settlement. For reporting on the OGOR-B, you report the volume at MCF not MMBtu. The Btu factor is the same for both the Form MMS-2014 and the OGOR-B.

Transportation and Processing Allowance Deductions

If you report both an AL and NAL allowance on a lease, should the allowance be reported on separate lines? For example, report the AL allowance on the royalty due line and report the NAL allowance on a separate line?

Response: No. The Sales Type Code (STC) is assigned to the transaction reported on the royalty due line, not the allowance contract. Therefore, you will report the allowance on the royalty due line and use the STC that is appropriate for that line.

If Transportation Allowance Deduction is not zero then Product Code must be 01, 02, 03, 04, 05, 06, 07, 09, 12, 17, 18, 19, or 20? Product Code 18 is eliminated?

Response: Correct.

If Processing Allowance Deduction is not zero, then Product Code must be 07, 09, 17, or 19?

Response: Correct with one exception. Product Code 03 can, in limited circumstances, qualify for a processing allowance. The reporter can apply to MMS for an extraordinary cost allowance. See the *Oil and Gas Payor Handbook-Volume III* and 30 CFR 205.158 for detailed information on this subject.

Should industry report the allowance fields with a negative sign or are the fields recognized as a deduction?

Response: Report your Transportation and Processing Allowances with a negative (-) sign.

Royalty Value Less Allowances

If Royalty Value Less Allowances is less than zero then Sales Volume, Gas MMBtu, Sales Value, Royalty Value Prior to Allowances, Transportation Allowance Deduction and Processing Allowance Deduction must all be less than or equal to zero?

Response: The answer depends on what you are reporting. If you are reversing an original line that includes a transportation and processing allowance deduction, your allowances will

be positive since these fields were reported as a negative on your original line. The other fields mentioned above will be less than zero.

If Royalty Value Less Allowances is greater than zero then Sales Volume, Gas MMBtu, Sales Value, Royalty Value Prior to Allowances, Transportation Allowance Deduction and Processing Allowance Deduction must all be greater than or equal to zero?

Response: The Royalty Value Prior to Allowances (RVPA) is not a required field. It may be completed or left blank, in which case MMS will calculate and populate the field. Royalty Value Less Allowances is mandatory. Transportation and Processing Allowance Deduction fields are expected to be negative values (i.e., less than zero unless reversing the original entry) and only filled, if applicable.

Payment Information

If Federal/Indian Indicator flag is F then Payment Method must be 1, 3, 4, (or 6)? (PM 6 is currently undefined.)

Response: Correct.

Does the MMS have a set of Indian Agency/Tribe/Allottee “Payment Codes” that a Payor is required to utilize when remitting Indian royalties electronically? If so, who can I talk to at MMS to see about getting those codes provided for incorporation into our MMS 2014/payment product?

Response: We no longer encourage payors to use a 5-character code (such as ANDAL). We would, however, like payors to include the MMS three digit fund code on their electronic payments. The electronic payment guidance, including these codes, is on our web site at: <http://www.mrm.mms.gov>. Click on Reporting Information, then click on Electronic Reporting, then click on U.S. Treasury Fedwire Deposit System.

If Payment Method is 4 then Transaction Code must be 06 (or 08)? (TC 08 is yet to be defined.)

Response: Correct for Transaction Code 06.

If Payment Method is 4 then Transportation Allowance Deduction and Processing Allowance Deduction must be zero?

Response: Correct

“Net Payment for this Report”. Should this be net for payment method 3 or net for all payment methods?

Response: “Net Payment for this Report” is the net payment for Payment Methods 1, 3, and 5, less any credits that the reporter is using (maximum of 3) to pay the Form MMS-2014. Report your actual cash payment.

On the new MMS Form 2014 under Payment Information there are lines for "Less Available Credits" and three lines for "Doc ID" . Is this the area where I would key in any dollar amounts for which we receive credits on interest bills that were submitted to Marathon via GBIL statements? Currently, once I get permission from the MMS to take a credit, I report such interest credits on a hand form 2014 and send it in with my transmittal letter and mag tape.

Response: This question refers to the three lines labeled Doc. ID in the Payment Information block of the Form MMS-2014. Yes, you are correct. Report the Doc ID with a negative (-) sign.

DOC ID TOTAL 1, 2, & 3. Should sign be negative or positive for **reductions to the payment? Since the field title doesn't say deduction I would assume that the sign for payment reductions would be negative?**

Response: Report the Doc ID with a negative (-) sign.

Electronic Reporting

What kind of confirmation can the operator expect?

For Pro Client, in the In-Basket, there will be a receipt confirmation. This confirmation may not appear when they sent it, they need to hit the "get/send mail" option 15 to 30 minutes after they send it.

On the Web, there is no confirmation, but the status on the Document List will show "Sent".

What is the difference between reporting on the Web and the Pro Client?

Pro Client is a software package where the forms are imported from an ASCII or a CSV file or filled out off line, then sent via web connection.

On the Web, forms are filled out on line and then sent.

When will a payor receive the new 2014 forms?

Pro Client Reporters: Peregrine sent Registration Information Sheet (RIS) instructions by e-mail to all current Pro Client reporters on September 20. All Pro reporters must re-register before using the enhanced reporting forms that become effective October 1, 2001. On September 21, Peregrine sent the enhanced reporting forms to the inbox of each Pro reporter currently using this reporting option. This was completed September 24.

Web Reporters: The enhanced forms will be available on the Web site October 1. Current Web reporters will not have to re-register. They will use their current logons and passwords. New Web reporters will have to register with Peregrine. Peregrine is in the process of contacting reporters to get them set up.

Paper Reporters: Peregrine will soon begin contacting all remaining reporters who have not yet converted to electronic reporting. New reporters will be allowed 3 months from the day their first monthly report is due to begin reporting electronically.

There are two conditions that will exempt a reporter from reporting electronically:

1. If the reporter is only reporting rents, minimum royalties, or other annual obligations.
2. If the reporter is a small business as defined by the U.S. Small Business Administration, AND if the reporter has no computer, has no resources to purchase a computer or contact with an electronic reporting service, nor access to a computer at a local library or other public facility.

In what form should agreement numbers be reported?

Production reporters can use either the MMS assigned number or the agency assigned number, but must designate which one they are using.

There is a drop down menu for this on the form. For 2014 reporters, only the MMS converted number can be used.

Will the OGOR process in the system if there is an error in the total?

On both the Web and Pro Client there is a “Calculate” button for each of the areas requiring a total and when used the totals are figured automatically and entered into the form. In the Pro Client, if an operator imports the wrong totals, they will get an error message when the document is validated.

What is electronic reporting?

This involves filling out forms on using a software package provided by our contractor, Peregrine which then sends the form over the Internet. There is also web filing, in which the forms are filled out on the Web and sent on the Web, and there is an Electronic Data Interchange (EDI) whereby data is sent computer to computer using a third party service provider.

What are the system requirements?

The requirements are detailed in the Minerals Production Handbook, Chapter 3, pages 8 and 9.

How does a company report when the Internet is down?

There may be a short-term outage when trying to report on the Web, the reporter will have to wait until the service is back up.

How do I contact MMS's electronic service provider?

Please contact Charlett, 248-675-2756, or Sandy at 734-878-1299, at Peregrine System, Inc., if you need to register for electronic reporting.

If you are currently a registered reporter who has received your Registration Information Sheet and you have questions about re-registering, please read the registration information carefully since many of your questions are addressed there. You should also review the *Read Me First* and *Quick Start Sheet* accompanying the new forms. Charlett or Sandy will be glad to take your call once you have determined your question is not addressed elsewhere.

If you have questions about the new reporting forms once they are installed, please refer to the online "Help" feature. Simply put your cursor in the problem field and click on Help.

Another source of form information is the CD-ROM that was mailed to MMS reporters containing both reporter handbooks. These handbooks are also available at www.mrm.mms.gov. Click Reporting Information and then click Handbooks and Manuals.

If your question cannot be answered through the online Help or the handbook(s), please call your MMS Company Representative directly or call 800-525-0309, ext. 3088. Please do not call Peregrine Customer Support with form-related questions.

CSV and ASCII record layouts are available at www.mrm.mms.gov or you may contact your MMS company representative with specific questions.

If you are experiencing technical difficulties while installing the updated forms, please call Peregrine Customer Support at 1-800-406-6056. Ignore the request for a 9-digit customer number. A Peregrine representative will be with you shortly.

What editing will be performed by Peregrine Systems before the reports are sent to MMS?

Response: MRM's electronic commerce vendor edits:

- Validate format requirements for each data element. For example, a numeric field (such as transaction code) will be validated to assure that only numeric characters are reported.
- Validate reported codes to assure that only valid codes are reported. The edits will not determine if the reporter selected the appropriate code, only that it is a valid code.

Subsequent editing will be performed by MRM's financial system once the data is received from Peregrine.

What are the exceptions to the electronic reporting requirement (many small operators/payors are not aware of any changes)?

Response: There are two exceptions to our electronic reporting requirement. Reporters do not have to report electronically if they: 1) report only rent, minimum royalty, or other annual obligations on the Form MMS-2014 or; 2) are a small business as defined by the U.S. Small Business Administration, and they have no computer or no resources to purchase a computer, or contract with an electronic reporting service, nor access to a computer at a local library or other public facility.

Does industry have to request an exception for hardship? By when?

Response: Yes. Reporters must request an exception to electronic reporting in writing to the following address (see the response above for the only two exceptions to electronic reporting): Mr. Ralph Spencer, Minerals Management Service, Minerals Revenue Management, P.O. Box 25165, Denver, Colorado 80225-0165. Reporters must submit their request as soon as possible after they are contacted by Peregrine personnel regarding conversion to electronic reporting, but in no case longer than 3 months following this contact.

Along those same lines, isn't the requirement to eliminate those on June 1, 2001, in direct conflict with the rule which lays out the date in which people have to convert? These dates include November 1, 2001. Again, a Dear Reporter letter cannot override this rule.

Response: The Electronic Reporting rule was published in the Federal Register on July 15, 1999 (Electronic Reporting: Final Rule (64 FR 38116—July 15, 1999). The effective date of this rule was November 1, 1999. In other words, reporters who were contacted by Peregrine after November 1, 1999, were obligated to convert to electronic reporting within a reasonable amount of time. We believe 3 months is a reasonable time period since the rule explicitly states that new reporters have 3 months from the day their first report is due to begin reporting electronically.

The only other dates noted in the rule are in a timetable that shows when small volume reporters must begin sending us electronic reports. The November 1, 2001, date that appears in this table means that any reporter submitting 1-3 lines of data each month must begin submitting their form(s) electronically by that date. If they are currently submitting these lines on paper, they may continue to do so until November 1, 2001. If they are currently submitting these lines electronically, the timetable does not affect them. The October 6, 2000, letter simply states that all **electronic** reporters who are not using one of the Peregrine options or EDI must do so by June 1, 2001. Of course, Form MMS-3160 reporters are exempt from this requirement just as they are temporarily exempt from the Electronic Reporting rule. These reporters will not have to convert to electronic reporting of any kind until the redesigned, electronic OGOR report (which replaces the current 3160) is available on October 1, 2001. MRM agrees that a Dear Reporter letter cannot override a rule. However, the June 1, 2001, cutoff date for all electronic reporting media, except the Peregrine options (which include EDI) and paper, does not have anything to do with the aforementioned timetable nor does it violate any other aspect of the Electronic Reporting rule.

Finally, the Electronic Reporting Rule does give MRM the authority to change electronic reporting options from those included in the rule. Please refer to Section 210.21, paragraph (a), of the rule that states, “You may use any of the following electronic media types, **unless MMS instructs you differently**” (emphasis added). The June 1, 2001, cutoff date for some electronic reporting options falls into the category of “unless MMS instructs you differently.”

If we currently send EDI to MMS, do we simply have to change the mailbox address to Peregrine?

Response: MMS has recently consolidated its incoming data streams. We have replaced the AT&T Easylink VAN service with Peregrine System’s, Inc., Get2Connect VAN. As part of this process, Peregrine has coordinated with all existing reporter VANs to reroute interconnects to Get2Connect.Net. The only change required by current X12 reporters is a minor modification to the Application Receiver’s Code (GS03) contained in the Interchange Envelope.

Will there be a problem with larger transmissions as sometimes occurs today?

Response: The move to the Peregrine Get2Connect VAN, as described above, has eliminated this file limitation.

Additionally, we have experienced performance problems with Peregrine’s desktop Form MMS-2014 when reporters exceed 2000 royalty lines. Peregrine’s enhanced reporting options, available on October 1, 2001, will remedy these performance problems. These enhancements will be largely transparent to our reporters but will be a tremendous improvement over the current options. The Internet based forms will be developed with Active Server Pages technology while the desktop forms (based on CSV and ASCII record layouts) will be developed using Visual Basic (VB) technology. These technologies allow full customization of printing, form presentation and business rule validation. Additionally, the VB forms support the processing of large reporting files.

One of the major concerns industry has is that Peregrine’s current software is not compatible with Windows 2000. Peregrine has basically told these companies that they are on their own. If any of them were reporting electronically they now believe that they will have to submit paper.

Response: Peregrine’s enhanced forms, effective October 1, 2001, are compatible with Windows 2000.

GENERAL QUESTIONS

How does industry update their addresses in the MRM database (letters going to wrong or outdated address/person)?

Response: Industry will update contact and address information by indicating their change in the trailer section of the electronic Form MMS-2014 (complete all fields). Industry can

also contact MMS by telephone or in writing to request an address change for your company.

If your company has an address outside of the United States, contact MMS by telephone or in writing to request an address change for your company. Since our system cannot update this area for a change of address outside of the United States, we must manually update our records.

If MMS sends information to the wrong address/person, we will perform the necessary research to correct the MRM database just as soon as we are made aware of the error.

How will MRM efforts be handled when there are multiple contacts in each company; e.g., oil vs. gas, volume vs. allowances, etc.?

Response: MRM will work with the companies to accommodate their needs.

When will the MRM resident auditors be reduced/eliminated?

Response: We have no plans to eliminate resident auditors. While our compliance strategy is now property-based, we still have to audit the records of individual companies who have interests in those properties.

Since AFS/PAAS exceptions are discontinued, what is the new process?

Response: There will no longer be an AFS/PAAS process to compare the volume between the royalty and production reports in the new world. As of October 1, 2001, a new compliance strategy will begin. This new process will address volume, royalty rate, allowances, and value together. MMS will look more globally at the variances rather than each separate line of reporting. Our expectation is that the companies will initially receive an issue letter (in some situations a more informal process may be used prior to an issue letter). The company can then respond. If a response is not received, an order will be sent.

Is MRM discontinuing issuing the automated bills and notifications for allowance exceptions?

Response: Yes.

If MRM eliminated the PIFs beginning April 1, how will new revenue sources be obtained if needed between now and 10/2001?

Response: If you do not know the 3-digit revenue source code for any lease you are reporting, please contact Reporting Services at (800) 525-9167, extension 3088.

Reporter Handbook

How can I access the Reporter Handbook?

Response: The internet version of the Minerals Revenue Reporter Handbook is available on our website at: <http://www.mrm.mms.gov/ReportingServices/handbooks/handbks.htm>

Historical Data

Can MMS provide a comparison of the old 2014 to the new (similar to what we provided them on the 3160 to OGOR)?

Response: This information is provided in “Historical Data Conversion Document” on our web site at: <http://www.mrm.mms.gov/ReportingServices/Forms/Revised.htm>.

Do you have a table for the conversion of the Selling Arrangement to the Sales Type Code so industry will know what code to use when reporting adjustments?

Response: We are converting all POP Selling Arrangements to Z700. All other Selling Arrangements (except 000) will be converted to Z999. Information regarding conversion of historical data is posted on our website at:
<http://www.mrm.mms.gov/ReportingServices/Forms/Revised.htm>

If industry reported on a POP contract prior to implementation of the specific POP selling arrangements, will MRM convert those to Z700?

Response: No. MRM has no way to distinguish those lines. The selling arrangements on these lines will be converted to Z999.

Will there be separate edits for lines reported 1) for prior periods; e.g., no MMBtu reported or 2) for lines reported on the old 2014 during the grace period?

Response: No. MRM will not have separate edits in place. When adjusting previously reported lines, populate the Gas MMBtu field using the formula: Sales Quantity X Quality Measurement = Gas MMBtu. Ex: 500MCF x 1.100 MMBtu/ Mcf = 550 MMBtu. We expect reporters to determine and report the correct Gas MMBtu information on all lines.

MRM has developed the ability in our new financial system to receive Form MMS-2014 data in the old format after October 1, 2001. However, MRM expects all reporting to be in the new Form MMS-2014 format as of October 1, 2001. A “grace period” will only be allowed for specific reporters case by case. MRM will convert any Form MMS-2014 lines reported in the old format to the new Form MMS-2014 format as shown in our “Historical Data Conversion Document” posted on our web site at:
<http://www.mrm.mms.gov/ReportingServices/Forms/Revised.htm>.

We will monitor all reporting as of October 1, 2001. All reporters using the old format will be contacted and converted to the new format ASAP.

We're considering whether we need to retain our own history tables. In the past we've rarely requested MMS-2014 history reports from the MMS. Do other companies rely on the MMS as their primary source for historical MMS-2014 data? Are there any

plans for instituting a charge for this service? Do you see a problem if there are frequent requests for data of this nature?

Response: We encourage companies to maintain historical data in their own systems. Currently some companies do request historical information from us for a variety of reasons. If the request involves an extensive period of time and large amounts of data, we may charge the requestor for providing the data. We will attempt to provide data when requested but we do not have the staff to respond to frequent and numerous requests for data.

We do plan to make data, including royalty and production information, available via the Internet. However, this will not occur until well after October 2001. Additionally, MMS will provide a one-time snap-shot of historical data by payor code, if requested.

When companies buy out an entire company or just a property, they need the historical data. COPAS suggested requiring the acquiring company to send a written request to MMS to identify the specific data and time frame they need.

Response: MMS encourages companies to obtain historical data from each other. When acquisitions occur, the acquiring company should request historical data from the seller and not MMS. MMS will provide historical data only on a limited basis and only upon written request.

On the agenda item "MRM Historical Data Conversion" it is stated that the MRM plans to provide criteria to map from old to new reports by February 28, 2001. Does this mean industry would be provided the specs that will enable industry to know how the historical data will be converted?

Response: The Industry Historical Data Conversion Document for Report of Sales and Royalty Remittance can be found at:

<http://www.mrm.mms.gov/ReportingServices/Forms/Revised.htm>

Why can't MMS convert and get the data to industry prior to October 2001?

Response: There are still several issues that we must resolve before we can provide the data; such as, properly securing the data to only authorized users, file formats and media, and time periods, etc..

How will industry get its converted data after 10/2001? Do they have to request it?

Response: Yes. Companies will need to request this data. MMS will publish a Federal Register Notice specifying how this is to be done.

Will the data be provided/requested by payor code? What is the status on the legality of providing converted data for periods prior to taking over a property/company?

Response: Yes. The data must be requested and will be provided by Payor Code. If MMS provides data for a company who buys out another company (the entire company), MMS will provide data by payor code.

MMS is fully aware of the necessity of protecting proprietary data. Data will not be released to anyone, other than the original reporter, unless the requestor demonstrates a legal right to that data.

When will the data be converted? Will blocks of data be converted at different times?

Response: All data will be converted at the same time. This will occur toward the end of September 2001.

Would the converted data be provided free?

Response: Yes. We will provide this converted data to companies, one time only, at no charge. However, please see the response to the question under Historical Data above "We're considering whether we need to retain our history tables. In the past we have rarely requested . . . ". MMS may impose a fee to provide information that is subsequently requested.

How far back will the data be converted?

Response: All data reported to MMS' Auditing and Financial System (AFS) will be converted. Data reported to the predecessor system, the Royalty Accounting System (RAS) cannot be converted. The first sales months reported to AFS ranged from 9/81 through 12/83, depending on when the former RAS Accounting Office was converted to AFS.

Can MMS provide the data conversion rules now? Industry is concerned that they won't have the converted data in time to make the necessary changes in order to adjust properly.

Response: A translation document that shows MRMs logic for conversion of historical data to the new reporting formats can be found at:
<http://www.mrm.mms.gov/ReportingServices/Forms/Revised.htm>.

Can industry get one last 930R/929P (reference data) report prior to conversion to the new system on October 1, 2001?

Response: No. See the Dear Reporter letter dated May 2001, Elimination of the Payor Information Form (PIF). The information provided in the 930R/929P will not be current or accurate by October 1, 2001.

Record Layout and File Specifications

When can we expect the specifications?

Response: We assume you are referring to the EDI mapping changes and CSV/ ASCII layouts. These are included with our “Dear Payor” Letter dated September 19, 2000. You can view this letter on our website at: <http://www.mrm.mms.gov>. Click on Reporting Information, and then highlight the letter you would like to see (by date or subject) and click on Submit.

Additionally, the most current CSV/ASCII record layouts, information concerning conversion of previously submitted (historical) data, and edit information can be found at: <http://www.mrm.mms.gov/ReportingServices/Forms/Revised.htm>

The paper 2014 shows a split line with part of the record on one line and the remaining fields on a second line. Will the electronic file industry submits have a split line on two records or will the records continue to be on one line as now?

Response: No. You do not have to report a split line. The detail line on the EDI, CSV and ASCII layouts is one line. The Report Header, Report Trailer and Payment Trailer on the CSV and ASCII will be separate lines.

We expect that the specifications when issued will address the field size and/or codes for all of the new fields. Also we expect that the specifications will let us know of any new or deleted codes for any currently existing fields. We hope that the definitions for any codes in current use will not be changed under the new format. For example, transactions defined as transaction code 01 should still be transaction code 01, adjustments defined as adjustment reason code 02 should still be adjustment reason code 02, etc.

Response: Where practical, we have tried not to redefine existing codes. However, please note that Transaction Code 13 has been redefined to “RIK Quality Bank and Gravity Bank Adjustment” and Adjustment Reason Code (ARC) 10 has been redefined as “Adjustment” and should be used for all adjustments that do not require a unique ARC. All codes were included with the Dear Payor Letter dated September 19, 2000.

You can view the Dear Payor Letter on our web site at: <http://www.mrm.mms.gov/DearRep.htm>. Updated information can be found at <http://www.mrm.mms.gov/ReportingServices/Forms/Revised.htm>.

We also expect the specifications will address the changes to EDI format.

Response: The revised *Electronic Data Interchange Handbook* is available on our website at: <http://www.mrm.mms.gov/ReportingServices/Forms/Revised.htm>.

Will you provide us with specifications for any error checking you expect from us?

Response: A spreadsheet showing transaction code specific edits will soon be available on our website at: <http://www.mrm.mms.gov/ReportingServices/Forms/Revised.htm>.

Royalty-In-Kind (RIK)

Will industry have to report a Sales Type Code for royalty-in-kind properties?

As of sales month October 2001, the MRM RIK Office will prepare all Form MMS-2014s related to RIK sales. Therefore, MRM will populate the Sales Type Code (STC) with “RIKD” for those RIK sales. Purchasers of RIK oil or gas will submit appropriate payments related to its RIK purchasers but will not report information related to these purchases on the Form MMS-2014.

In certain cases, MRM may direct the operator to transport MMS’ royalty volumes to a point away from the royalty facility measurement point (FMP). In those cases, the operator may deduct its actual, reasonable costs for that transportation on the Form MMS-2014 using a Transaction Code (TC) 11.

The operator may also deduct any negative quality bank adjustments incurred by moving the production from the royalty FMP to the specified delivery point away from the royalty FMP on the Form MMS-2014 using a TC 13. If the operator receives any positive quality bank adjustments while moving the production from the royalty FMP to the specified delivery point away from the royalty FMP, those monies are considered part of gross proceeds and are therefore royalty bearing. Operators must report positive quality bank adjustments on the Form MMS-2014 using TC 13.

When reporting a TC 11 or TC 13 on the Form MMS-2014 on RIK properties, the RIK STC “RIKD” is optional.

Is there an edit to detect when a reporter is incorrectly reporting and paying in-value when the lease has been designated as Royalty-In-Kind (RIK)?

On occasion, a payor may inadvertently report and pay royalties in value on a property that is taken-in-kind. In those cases, MRM, in conjunction with the Offshore Compliance and Asset Management Office, will notify those payors of any misreporting of royalties in value on RIK properties.

Royalty Rate

What we are attempting to test for is if the royalty rate is correct. However we don't want false alarms. So we would multiply the sales value times the royalty rate. The answer should be within \$1.00 of the royalty value. We don't care if the amount is off by a few cents since those errors could be due to rounding.

Response: Correct. (Sales Value x Royalty Rate = Royalty Value Prior to Allowances).

Is there an imputed royalty rate that industry should use? Will MRM have edits that apply a royalty rate (possibly by MMS Lease Number and Product Code) to re-computes Royalty Value before Allowances based upon the reported Gross Value? Can a user, who takes half the volumes from a lease, merely use a royalty rate that is half the normal rate (say 6.25% on a normal 12.5% lease) and apply it to the true 100% volumes?

Response: MRM will have edits that compare the reported Royalty Value Prior to Allowances to the result of the reported Sales Value x the royalty rate for the lease. A user who takes half the volume from a lease should calculate and report this portion in the Sales Volume field on the Form MMS-2014 and not reduce the royalty rate. Then, report the result of (Sales Value x the royalty rate for the lease) as Royalty Value Prior to Allowances. The Sales Value reported would be the value associated with the amount taken and sold by the user.

How does MMS propose handling different royalty rates within a single lease and unit, e.g. 065-051174-0 has a sliding/step scale and a 12.5% fixed royalty rate tracts. We suggest using the 11th digit of the lease number to distinguish between the two tracts.

Response: MMS expects two royalty lines to be reported. Both lines will show the same lease number, but each line will contain volumes and values applicable to the different royalty rates. We require one line for the sliding scale rate and one line for the 12.5 percent rate. Different royalty rates within the sliding scale rate should be rolled up and reported on one line.

Does MRM automatically generate royalty rate exception letters? If yes, will these also be stopped as with AFS/PAAS letters?

Response: MMS has not generated automated royalty rate exception letters or bills for a number of years. We continue to review royalty rate exceptions for all properties; however, we manually research these exceptions before any letters are sent. This review includes all the stripper oil properties through at least the production month of June 2001. We will use the new compliance system to review royalty rate reporting after November 1, 2001.

System Testing

Can industry test with/through Peregrine at anytime?

Response: No. Peregrine does not have a test environment available for general use by industry. Once the software is received, you can become familiar with the functionality and features of the software and perform all functions except actually “sending” the file. MMS will make every effort to work with each reporter to quickly identify and resolve reporting errors. We do not anticipate the need for any enforcement actions.

Valuation

Calculation Method will be eliminated from the new Form MMS-2014. Per MMS guidelines, we are required to report major portion dual accounting with a required calculation method of “4” or “5” when reporting adjustment reason code “16.” Is this no longer a requirement?

Response: Per MMS Dear Payor Letter dated December 1, 1999, if you are required to perform dual accounting, you must elect to perform either actual dual accounting with a

required calculation method code of “04” or the alternative methodology for dual accounting with a required calculation method code of "05”.

If you are required to perform dual accounting, you must elect to perform either actual dual accounting, under 30 CFR § 206.176 (64 FR 43506), or the alternative methodology for dual accounting, under 30 CFR § 206.173 (64 FR 43506). Yes, it is still a regulatory requirement to make an election for dual accounting when dual accounting is required. Effective October 1, 2001, the Calculation Method data element is eliminated from the Form MMS-2014. Therefore, you will not report a calculation method of 04 or 05 on the new Form MMS-2014. MMS is currently revising the Certification for Not Performing Accounting for Comparison (Dual Accounting), Form MMS-4410, to collect this additional data regarding the election of either actual or alternative dual accounting. However, you must continue to use adjustment reason code “16” to report major portion/dual accounting adjustments for leases located only in non-index zones.

What is the definition of an aggregation point?

Response: Aggregation point means a central point where production is aggregated for shipment to market centers or refineries. It includes, but is not limited to, blending and storage facilities and connections where pipelines join. Pipeline terminations at refining centers also are classified as aggregation points. MMS periodically will publish in the Federal Register a list of aggregation points and associated market centers. A location that has the characteristics described above may be considered an aggregation point even if it is not included in MMS's published list of aggregation points.